



STRATEGIC PLANNING &  
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## Thoughts On Compensation

By

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Compensation enhancement opportunities is one of the most important motivational keys that companies use to encouraging individuals to do what's in the company's best interests – no matter what that might be.

Savvy companies understand that the best compensation program "IS" a well-written job description. A large percentage of larger firms utilize this technique – unfortunately, this is less so with smaller firms who may not have grasped the important of a well written comp program. What do I mean?

Individual's goals/expectations need to be carefully laid out so that an individual can rapidly understand how they meet the company's expectations and earn extra dollars (commissions or bonuses). For larger firms, this approach has enabled big companies to become much BIGGER and smaller companies to grow and more successful compete.

Think about it. No matter what I want a person to do, I can, if I think about it long enough, develop a bonus based compensation program based on specific goals and expectations.

Lets take a distributor's warehouse and its need to cut costs and improve efficiencies (goal).

A client of mine had a 50,000 square foot high cube (high ceilings) warehouse that contained 10,000 items. Some of the items were sold in cartons/boxes – others by the "each". The computer printed out packing slips and a team of two people who picked the products off the shelves (pickers) and gave it 1-checker for confirmation of accuracy and then passed it along to a "wrapper" (who packaged it) were averaging 90 line-items per hour. There were four teams of 4-workers each working in the warehouse.

So you say to yourself, how do I motivate warehouse workers? You do it by establishing a standard that is backed by experts. For this example, the Quickborner Team of distribution systems experts has said that this same team, if motivated, could pick/pack/wrap up to 140 line items/hour. That means that for every hour that this same team worked with a properly designed compensation program, they could be handling 50 additional line items vs. the other team. Right?

So what happened? A bonus incentive program was developed that incentivized each team when certain productivity benchmarks were achieved. In this example team members received \$250 per quarter if their team hit 105 lines per hour (averaged over a 13 week quarter), \$350 per quarter if they hit 115; \$450 if they hit 125, etc.

And what kind of results did this distributor see? The average team in his warehouse went from 90 lines/hour to 120 lines within 45 days. There was a spirit of competitiveness and everyone wanted that bonus.

This approach can apply to almost anyone in any company. For example:

If you have a person involved with purchasing, his/her ability to reduce cost of goods sold is a measurable matrix. What value does the company gain from having a purchasing person reduce the cost of goods 5%? If you have a person involved with AR (account receivable/collections), you have another area where you can measure their success by establishing goals for them that translate into bonus \$'s.

In this example, the average #/days outstanding (ADO) is definitely known by the management team. If a company is doing \$100,000/month and the company AR is averaging 61 days, it doesn't take a genius to recognize that there is \$200,000 outstanding – money that the company could use for other business development purposes. So how do we motivate the AR person?

Simple. Establish benchmarks based on the #/days outstanding. For example: a) reduce the ADO to 50 days and sustain it for 3 months is worth \$250; b) reduce the ADO to 45 days is worth \$350. You get the idea.

What is the benefit to the company? \$'s that were outstanding are now available for the company to use. In effect, it is a "win-win" scenario.

So can this be applied to individuals who are involved with marketing and sales? Absolutely! Since a large percentage of larger firms use bonuses vs. commissions to encourage revenue-growing achievements, it becomes a relatively simple matter to develop a comp program that ties what you're trying to accomplish into how they are paid e.g.

- sell more products (or different categories of products) to our existing customers/clients is worth "X"
- add one additional line-item to every order placed by a customer e.g. if your company's average order is 4 line items, what would it mean to the company to bring that average up to 5 lines? Naw – I couldn't use the extra 20-25% revenue growth that would mean – right? That's worth "Y".
- convert prospects into customers: If I add 10 new customers to my account base that do "X" # \$'s/month" each, what is that worth to the company? And what should I reward a sales person for doing that consistently? That's worth "Z"

You get the idea.

As long as people are properly motivated AND trained to do their job, bonus compensation will help you and your company succeed. That is, as long as there is MANAGEMENT actively involved to help these individuals achieve their success. As always, MANAGEMENT IS THE KEY!

For more information and practical hints to help your company develop a compensation program that, truly, motivates, contact Craig by calling him at (978) 640-0803 or emailing him at [cstimmel@spiainc.com](mailto:cstimmel@spiainc.com). SPIA has a very rich website where more information is also available: [www.spiainc.com](http://www.spiainc.com) – blog: <http://blog.spiainc.com>  
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